

February 13, 1998

## **It's Not the Minimum Wage, It's the Maximum Taxes**

### **Growth in Taxes Outstrips Wage Growth In Clinton Years**

Concerned over what they perceive as less than adequate remuneration for America's workers, President Clinton and Senator Kennedy have announced their intention to further increase the minimum wage, despite having raised it twice in the last two years. They are right to be concerned, Americans have been financially squeezed — especially throughout the five years of President Clinton's administration. However, it is not Wall Street's parsimony that is doing the squeezing, as liberals claim, but Washington's voracious tax appetite. In fact, if President Clinton and Senator Kennedy are really serious about finding the culprit, they should start their investigation with a mirror.

According to a February 2 news release by the Department of Commerce's Bureau of Economic Analysis (BEA), wages and salaries rose 6.7 percent in 1997 — well ahead of the 1.7 percent growth in inflation. However, despite this robust growth, the BEA reports that it was only about half the 11.4 percent growth in personal tax payments. Nor was 1997 an anomaly, throughout the past five years — the entire Clinton term in office — wage growth has been below the growth of personal tax payments according to BEA.

If the cynical politics were not so obvious, this Clinton-Kennedy election year ploy would be laughable. However, it can serve one important purpose: To fairly place the blame for why American families have proportionally less and less to save, spend, and invest. The fact is, liberal policies are shifting more and more of wages to Washington and away from America's families.

### **Trying to Legislate Prosperity...**

Senator Kennedy has announced his intention in a 1/15/98 Dear Colleague letter for *"three annual increases of 50 cents in the minimum wage in each of the next three years — to bring the level to \$6.65 an hour on September 1 in the year 2000...."*

President Clinton has joined in this misguided effort to legislate prosperity: *"Because these times are good, we can afford to take one simple, sensible step to help millions of workers struggling to provide for their families: We should raise the minimum wage"* (Clinton Speech of the Union, 1/27/98). President Clinton announced February 12, that he would seek to raise it by a dollar in two fifty-cent increases over the next two years.

Of course, were it really possible to legislate prosperity, the Soviet Union would not only still be standing, but flourishing. In fact just the opposite has been true: Liberals like Clinton and Kennedy have been very successful at reducing prosperity legislatively.

## **Tax Growth Has Exceeded Wage Growth Under Clinton**

The BEA data clearly show how successful taxes have been at outpacing wage and salary growth. The BEA tabulation of total wages and salaries paid to all employees (both government and private sector) — in other words, America's paycheck — in 1997 was \$3.877 trillion, an increase of 6.7 percent from 1996. The BEA tabulation of total payments (taxes, user fees, etc.) to government at all levels (federal, state, and local) by individuals — in other words, America's tax bill — in 1997 was 987.8 billion, an increase of 11.4 percent. In short, BEA's data show that America's tax bill rose faster than its paycheck. Americans are therefore making more, but taking home proportionally less of their paychecks.

Nor is this just a one-year trend. As the BEA data below show, this is a trend that has existed throughout the Clinton administration's five-year tenure. Looking back over BEA's data since 1959 (see Table and Graph on following pages):

- Since 1993, the growth in personal tax payments has outstripped that of wages and salaries.
- Prior to 1993, the faster growth of taxes than wages had not occurred since 1989, the first year of the Bush administration.
- Not since 1980-1981, had there been more than two consecutive years in which tax growth had exceeded wage growth.
- Only one other period 1965-1969 has equalled and only one other period (1976-1981) has exceeded this record of excessive tax growth.
- Only Carter (1977-1980) and Clinton can show tax growth exceeding that of wages and salaries in each year of his presidency.
- In fact only once in the four Democrat presidencies (Kennedy/Johnson: 1961-1968; Carter: 1977-1980; and Clinton: 1993-1997) since BEA began collecting data, has tax growth not exceeded that of wages and salaries — 1964.

This record of excessive tax growth is not only confirmed by President Clinton's latest budget — it is expected to continue. Last year, federal tax revenue reached its highest level since World War II, as a percentage of G.D.P. — 19.8%. This level has been approached only twice since World War II: in 1969 resulting from the Vietnam War, and in 1981 because of inflation arising from the Carter administration. Total federal revenues will reach 19.9% of G.D.P. this year.

These are not just abstract figures, as Senate Majority Leader Trent Lott pointed out in his response to the President's State of the Union address, they have a real impact on America's families. The typical American family's total tax burden (federal, state, local) is 38% — more than a third — of the family income. Taxes consume one-third of everything America produces annually (32% of G.D.P. in the third quarter of 1997) and while government income increased nearly 1,000% in the past 30 years, family incomes have risen only half that much (492%).

And the trend is expected to continue. According to the Senate Budget Committee, federal receipts will reach a post-World War II record of 20.1 percent of GDP next year if President Clinton's budget is enacted.

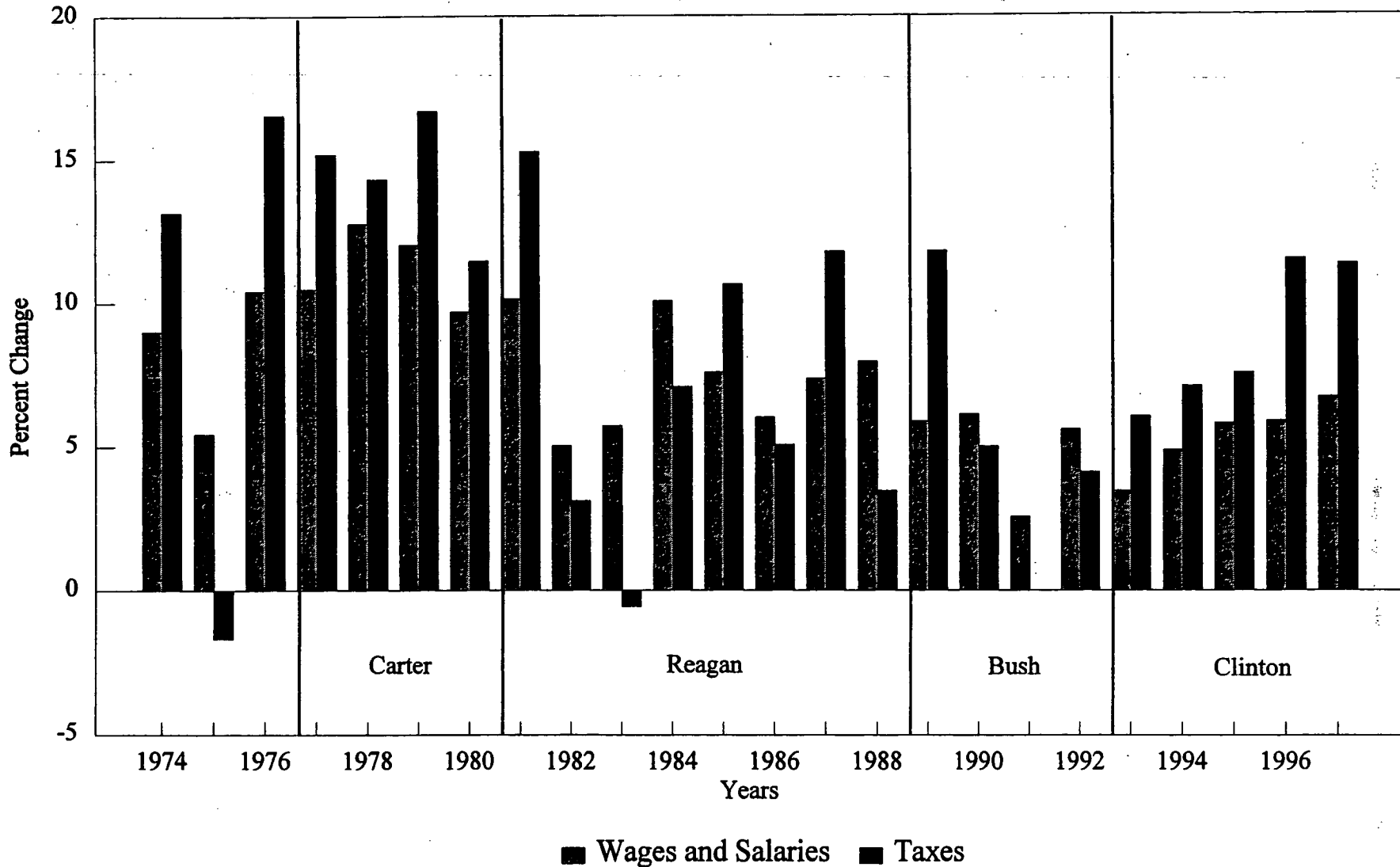
### **Are Liberals Trying to Hide Culpability?**

It's no wonder Americans feel financially squeezed. Washington's tax growth has exceeded America's wage growth for the last five years. So while they have earned more, they have taken home proportionally less. While President Clinton and Senator Kennedy have been unconcerned about raising taxes, they now profess concern about the family financial squeeze their policies caused. Their solution? More federal interference to correct the problem of earlier federal interference. In short, they seek to make Main Street pay Pennsylvania Avenue's bill.

This record of excessive tax growth raises the question as to why President Clinton and Senator Kennedy are really trying to raise the minimum: Do they really want to raise America's prosperity or do they merely want to hide their culpability in lowering it through excessive tax growth? If their goal is really to raise America's take home pay they should start by cutting the demagoguery and the taxes. To paraphrase Clinton's 1992 campaign slogan: It's not the minimum wage, it's the maximum taxes, stupid.

# Wage Growth vs. Personal Tax Growth: 1974-1997

Since Clinton Took Office, Wage Growth Has Not Exceeded Tax Growth



## Wage & Salary Growth and Personal Tax Growth: 1960-1997

[Personal taxes and wage & salary numbers are in billions of dollars]

	Personal Taxes	% Change	Wage & Salary	% Change	Tax Growth Exceeds Wage Growth
1960	48.7	9.4	272.8	5.0	X
1961	50.3	3.3	280.5	2.8	X
1962	54.8	8.9	299.3	6.7	X
1963	58	5.8	314.8	5.2	X
1964	56	-3.4	337.7	7.3	
1965	61.9	10.5	363.7	7.7	X
1966	71	14.7	400.3	10.1	X
1967	77.9	9.7	428.9	7.1	X
1968	92.1	18.2	471.9	10.0	X
1969	109.9	19.3	518.3	9.8	X
1970	109	-0.8	551.5	6.4	
1971	108.7	-0.3	583.9	5.9	
1972	132	21.4	638.7	9.4	X
1973	140.6	6.5	708.7	11.0	
1974	159.1	13.2	772.6	9.0	X
1975	156.4	-1.7	814.6	5.4	
1976	182.3	16.6	899.5	10.4	X
1977	210	15.2	993.9	10.5	X
1978	240.1	14.3	1120.8	12.8	X
1979	280.2	16.7	1255.9	12.1	X
1980	312.4	11.5	1377.7	9.7	X
1981	360.2	15.3	1517.6	10.2	X
1982	371.4	3.1	1593.9	5.0	
1983	369.3	-0.6	1685.3	5.7	
1984	395.5	7.1	1855.1	10.1	
1985	437.7	10.7	1995.9	7.6	X
1986	459.9	5.1	2116.5	6.0	
1987	514.2	11.8	2272.7	7.4	X
1988	532	3.5	2453.6	8.0	
1989	594.9	11.8	2598.1	5.9	X
1990	624.8	5.0	2757.5	6.1	
1991	624.8	0.0	2827.6	2.5	
1992	650.5	4.1	2986.4	5.6	
1993	690	6.1	3089.6	3.5	X
1994	739.1	7.1	3240.7	4.9	X
1995	795.1	7.6	3429.5	5.8	X
1996	886.9	11.5	3632.5	5.9	X
1997	987.8	11.4	3877.2	6.7	X

\*Source: Department of Commerce's Bureau of Economic Analysis